APA Recommendations on Student Loan and Borrower Benefits for COVID-19 Legislation

Extension of Student Loan Provision in the CARES Act
The Coronavirus Aid, Relief, and Economic Security (CARES) Act suspends student loan payments and lowers the interest rate to zero percent, for all borrowers with Direct Loans, through September 30, 2020. However, there are currently about 10 million borrowers with Perkins loans or Federal Family Education Loan Program (FFELP) loans that are held either commercially by financial institutions or institutions of higher education. Although these loans have essentially the same terms and conditions as the loans that are owned by the Education Department, they are not covered by the CARES Act.

- **Recommendation:** Extend student loan benefits in the CARES Act—including interest waivers, and payment and collection suspensions—to all FFELP and Perkins borrowers.
- **Recommendation:** Further extend all student loan/borrower benefits for at least an additional six months beyond September 30, 2020.

Alleviate Potential Impacts on Borrowers in PSLF
According to the Bureau of Labor Statistics, 22 million workers filed for unemployment benefits in March 2020. This includes those in the healthcare workforce, among which are professionals providing critical mental and behavioral health care. Even those who have not been laid off, many are still being furloughed or seeing their hours reduced. This includes postdoctoral fellows in psychology, who are receiving training. Many of these individuals carry significant student loan balances, are in public service, and enrolled in the Public Service Loan Forgiveness (PSLF) program. Although the period of loan suspension in CARES Act will count towards PSLF eligibility, the application of several PSLF requirements may penalize public service workers who may have lost their jobs as a result of the COVID-19 pandemic.

- **Recommendation:** Waive the requirement that to receive the benefits of CARES associated with PSLF, an eligible borrower must be employed in a full-time public service job for each month the borrower’s full-time public service employment is interrupted due to COVID-19.
- **Recommendation:** Waive the requirement that a borrower must be employed in public service at the time of loan forgiveness. This would prevent a situation where a borrower—whose 120 qualifying payments are completed during this period—does not receive their earned forgiveness if they were furloughed, laid off, or fired as a result of COVID-19.
Support Students and Borrowers Facing a Challenging Job Market

Current students, recent graduates, as well as those who will be graduating in the coming months, are either working towards a degree or looking for employment in what is arguably the weakest job market since the creation of the federal student loan system. This also includes those entering the health care professions, which have previously been thought to be ‘recession proof.’ Doctoral psychology interns are also seeing their training delayed, which is lengthening their time to degree, and increasing cost of education. There are several steps that the federal government can take to address both the affordability and continuity of higher education, as well as aid borrowers struggling to find work and begin repaying their loans in the wake of the COVID-19 pandemic.

- **Recommendation:** Eliminate origination fees for all federal student loans. This would apply retroactively to any loans disbursed as of January 1, 2020. All federal Direct Loans have accompanying origination fees, which increase the overall cost of higher education. This disproportionately impacts graduate students, who pay multiple origination fees, on which interest begins accruing immediately upon disbursement of the loan.

- **Recommendation:** Set interest rates on all federal student loans at 1.5 percent. This would apply to any loan initially disbursed between July 1, 2020 and June 30, 2021. Also, allow any loan disbursed on or after July 1, 2019 and through the end of the specified period, to be refinanced at that rate. Currently, for graduate students, the interest rate is 6.08 percent for unsubsidized Stafford loans and 7.08 percent for Grad PLUS loans.

- **Recommendation:** Extend the post-graduation loan repayment grace period for at least an additional six months for all borrowers who graduated in the period between May 1, 2019 and December 31, 2020.

Address Unintended Tax Implications for Students and Borrowers

Borrowers who are enrolled in an Income-Driven Repayment program can have the balance of their federal student loans forgiven after making either 20 or 25 years of payments. However, under current law, the forgiven amount will be taxed as income. Loans forgiven under PSLF, however, are tax exempt. Taxing forgiven debt is contradictory to its purpose as a potential economic stimulus and will stymie part of the benefit loan cancellation may provide.

- **Recommendation:** If Congress enacts broad federal student loan cancellation as part of any COVID-related legislation, it should ensure that any forgiven loan balance does not impose a tax penalty on borrowers.

The CARES Act mandates that at least 50 percent of the funds appropriated for the Higher Education Emergency Relief Fund be used to provide emergency financial assistance directly to students. This includes any expenses unrelated to tuition, such as food, housing, and health care. However, under IRC Sec. 117, scholarship or grant aid not spent on ‘qualified tuition and related expenses’ could be taxed. Thus students who use their emergency grant aid to help cover permitted non-tuition expenses, could later be taxed on that aid, in effect negating the intended purpose of enacting this benefit.

- **Recommendation:** Ensure that emergency financial aid grants to students, authorized in the CARES Act, are not considered as taxable income.